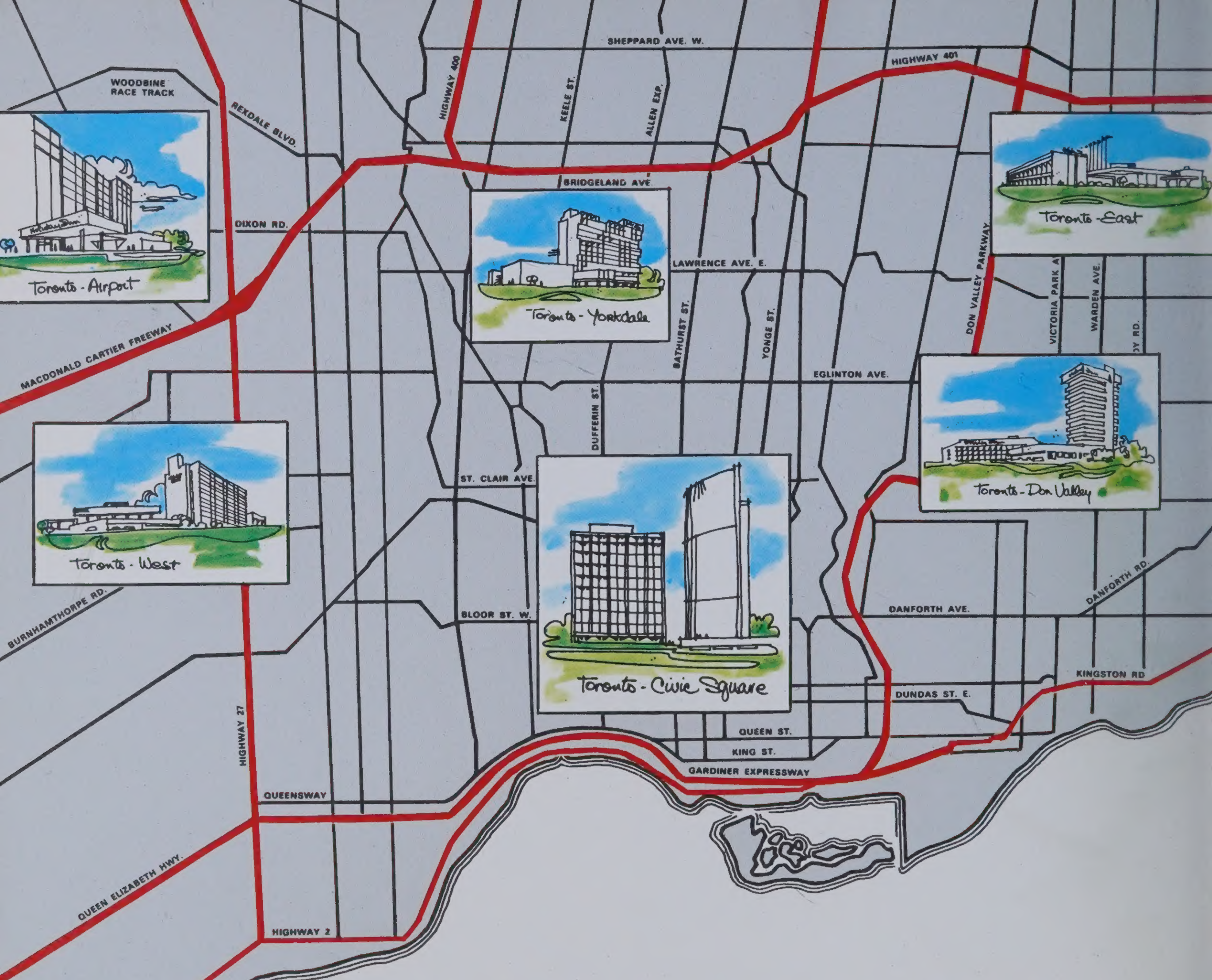
Commonwealth Holiday Inns of Canada Limited.

Annual Report 1970



A GROWTH STORY

METROPOLITAN Toronto is one of North America's fastest growing cities — and Commonwealth Holiday Inns of Canada Limited's expansion program in Toronto is keeping pace.

There are four Holiday Inns now serving the city . . . with two others under construction.

Toronto's Holiday Inns are well planned to service the present and future needs of the vacationer, the travelling businessman and the convention planner.

In total, when current construction plans are completed, six Holiday Inns with over 2,300 guest rooms will be servicing the regional needs of Metropolitan Toronto. These facilities will have required an investment of over $50,000,000 and will establish Commonwealth Holiday Inns of Canada Limited as Toronto's number one hotelier; a position we intend to maintain through future growth and a continuing desire to provide the high standard of accommodation and service which has made Holiday Inns the "World's Innkeeper".

HOLIDAY INNS IN TORONTO

Toronto International Airport; Dixon Road and Highway 27
361 Rooms
Opening 1971

27 Hwy. at Burnhamthorpe Rd.
200 Rooms

Yorkdale—Dufferin at 401
250 Rooms

Civic Square; north of Toronto City Hall
750 Rooms
Opening 1972

Don Valley Parkway at Eglinton East
291 Rooms
New Tower under planning—250 Rooms

Warden Avenue at 401
203 Rooms

case, the major portion of profit will be earned in the second half of the year.

General

The 193-room Holiday Inn of Edmonton was opened on May 19 and experienced an immediate high level of acceptance by the public. This is the first Inn to be added in your Company's planned expansion throughout Canada and becomes an important addition to the ever-expanding Holiday Inn reservations referral system available to the travelling public.

A 51-room addition to the London South Inn is nearing completion and planning is proceeding on additions to the London Downtown and Kingston Holiday Inns. Scheduled for fall opening are the Inns at Plymouth, England; Sudbury, Ontario; St. Lucia, W.I., and Grenada, W.I., adding 674 rooms to those now in operation. Construction is progressing on the previously announced Toronto Civic Square and Toronto Yorkdale Inns, and is scheduled to commence on the Toronto Airport Inn prior to year end. When these projects are completed, the Company will have 6 Inns serving the needs of the regional areas of Metropolitan Toronto.

On behalf of the Board of Directors,

D. Rubinoff,
Chairman of the Board
and President.

June 19th, 1970.

INNS IN OPERATION

CANADA

ONTARIO

Thunder Bay	St. Catharines
Kenora	Oakville
Windsor	Toronto Don Valley
Chatham	Toronto West
London South	Toronto East
London Downtown	Barrie
Kitchener	Huntsville
Hespeler-Galt	Peterborough
Brantford	Kingston
Hamilton	Ottawa

ALBERTA
Edmonton

MICHIGAN

Pontiac	Port Huron

CARIBBEAN

Barbados	Antigua

UNDER CONSTRUCTION OR PLANNED

CANADA

ONTARIO

Toronto Civic Square**	Oshawa**
Toronto Yorkdale*	Belleville
Toronto Airport**	Ottawa Downtown
Sudbury*	Sarnia
Burlington**	

MANITOBA

Winnipeg Downtown	Winnipeg Airport

ALBERTA
Lethbridge

BRITISH COLUMBIA

Vancouver	Victoria
Whistler Mountain	

CARIBBEAN

St. Lucia*	Guadeloupe**
Grenada*	St. Kitts
Trinidad-Tobago**	St. Croix
Barbados Seawell	Guyana
Martinique	

EUROPE

UNITED KINGDOM

Plymouth*	Slough
London**	Bradford
Bristol	Newcastle

PORTUGAL
Madeira**

*Opening 1970
**Opening 1971-72

Commonwealth Holiday Inns of Canada Limited

INTERIM REPORT

FOR THE SIX MONTHS
ENDED APRIL 30, 1970

TRADE MARK REGISTERED

COMMONWEALTH Holiday Inns

OF CANADA LIMITED

TO THE SHAREHOLDERS:

In the first half of the current fiscal year ended April 30, 1970 your Company has experienced continued growth in sales, earnings and cash flow. The results set out in the statements in this report have been achieved notwithstanding significant declines in business activity in the Canadian economy generally.

Sales

Sales during the six-month period reached $14,464,900, an increase of 45% from the like period in the 1969 financial year. This is a reflection of the continuing high level of occupancy in the Inns operated by the Company, and the excellent acceptance of the Inns opened during the past year.

Earnings

Net earnings available to common shareholders increased by 36% to $183,700, the highest level yet achieved by the Company in the November-April portion of its fiscal year which historically is the least profitable period. To enable shareholders better to assess the Company's growth, we have continued the practice of including results for the twelve-month period ended with the quarter under review and those of the comparable period in the previous year. These results do not, of course, relate to our fiscal year which ends on October 31. The Company expects that earnings for the current year will again substantially exceed those of last year and that, as has always been the

CONSOLIDATED STATEMENT OF EARNINGS — Unaudited

	Six Months Ended April 30th			Twelve Months Ended April 30th		
	1970	1969	Change	1970	1969	Change
Sales	**$14,464,900**	$ 9,956,100	+45%	**$29,940,600**	$20,781,400	+44%
Earnings Before Taxes	**429,500**	326,100	+32%	**2,613,000**	1,894,900	+38%
Provision For Income Tax	**218,900**	163,700		**1,388,200**	1,001,400	
Net Earnings	**210,600**	162,400	+30%	**1,224,800**	893,500	+37%
Dividends On Preference Shares	**26,900**	27,500		**53,800**	55,100	
Earnings Available To Common Shareholders	**183,700**	134,900	+36%	**1,171,000**	838,400	+40%
Per Share — On Average Outstanding (Note 1)	**.08**	.06	+33%	**.49**	.38	+29%
Cash Flow From Operations (Note 2)	**1,318,100**	963,500	+37%	**4,231,100**	3,032,300	+40%
Per Share — On Average Outstanding (Note 1)	**.55**	.42		**1.75**	1.39	
Average Common Shares Outstanding	**2,414,871**	2,315,042		**2,413,086**	2,181,462	

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS — Unaudited

	Six Months Ended April 30th	
	1970	1969
Working Capital At Beginning Of Period	**$ 183,500**	$ 592,000
SOURCE OF FUNDS:		
Net Earnings	**210,600**	162,400
Add — Non-Cash Charges		
Depreciation And Amortization	**888,600**	637,400
Deferred Income Taxes	**218,900**	163,700
	1,318,100	963,500
Mortgages And Other Long Term Loans	**2,495,600**	1,952,600
Sale Of Shares	**5,500**	3,795,300
Proceeds On Sale Agreement	**780,000**	—
	4,599,200	6,711,400
APPLICATION OF FUNDS:		
Purchase Of Fixed Assets	**4,500,800**	4,667,300
Deferred Expenses	**560,200**	249,100
Reduction Of Long Term Debt	**886,300**	3,796,300
Dividends On Preference Shares	**26,900**	27,500
Expenses Of Share Issue	—	110,700
Franchises	**32,400**	10,800
	6,006,600	8,861,700
Working Capital (Deficit) At End Of Period	**$(1,223,900)**	$(1,558,300)

NOTES:
1. No account has been taken in this calculation of conversion privileges attached to the remaining 4,050 Preference shares or warrants and options for 1,070,984 Common shares which could have been, but were not, exercised. For particulars of warrants which may be exercised in future years see Note 7 to the latest audited financial statements for the year ended October 31, 1969, previously sent to shareholders, an extra copy of which will be supplied to any shareholder on request.
2. Cash flow consists of net earnings before dividends on Preference shares plus non-cash charges for depreciation, amortization and deferred taxes.
3. There were 2,422,013 Common shares outstanding at April 30, 1970.

COMMONWEALTH

Holiday Inns

OF CANADA LIMITED

ANNUAL REPORT 1970

CONTENTS

REGISTRAR AND TRANSFER AGENT

The Registrar for the Common Shares and the Convertible Preference Shares is Canada Permanent Trust Company at its principal offices at Toronto, London, Winnipeg and Vancouver. The Transfer Agent for the Common Shares and the Convertible Preference Shares is The Royal Trust Company at its principal offices at Toronto, London, Winnipeg and Vancouver.

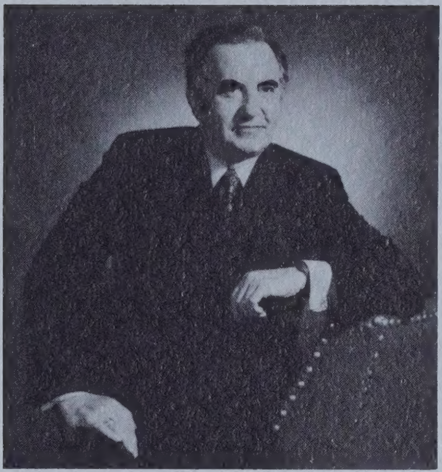
FINANCIAL HIGHLIGHTS
Year Ended October 31, 1970
(Canadian Currency)

	1970	1969	Change
SALES	$33,258,870	$25,431,843	+31%
EARNINGS BEFORE TAXES	$ 2,804,927	$ 2,509,597	+12%
Per Dollar of Sales	8.4¢	9.9¢	
PROVISION FOR INCOME TAXES*	$ 1,475,000	$ 1,333,000	+11%
Per Dollar of Sales	4.4¢	5.3¢	
NET EARNINGS	$ 1,329,927	$ 1,176,597	+13%
Per Dollar of Sales	4.0¢	4.6¢	
DIVIDENDS ON PREFERENCE SHARES	$ 53,056	$ 54,437	
EARNINGS AVAILABLE TO COMMON SHAREHOLDERS	$ 1,276,871	$ 1,122,160	+14%
Per Share**	53¢	48¢	
CASH FLOW FROM OPERATIONS***	$ 4,620,120	$ 3,876,526	+19%
Per Share**	$ 1.91	$ 1.65	
ADDITIONS TO PLANT AND EQUIPMENT	$10,572,774	$10,875,494	
TOTAL ASSETS AT YEAR END	$49,571,132	$36,030,849	+38%

*No income taxes were payable in 1970 and 1969, although full provision was made for taxes on a deferred basis.

**Calculated on average number of common shares outstanding, 2,420,073 for 1970 and 2,363,550 for 1969. There were 2,427,013 common shares outstanding at October 31, 1970.

***Cash flow consists of net earnings before dividends on preference shares plus non-cash charges for depreciation, amortization and deferred charges.

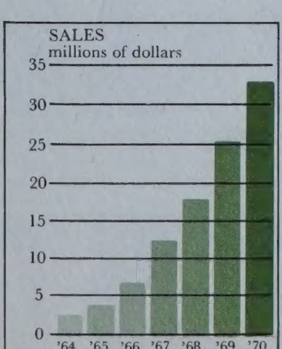


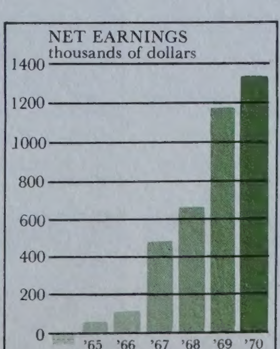
CHAIRMAN'S REPORT TO THE SHAREHOLDERS

ON behalf of the Board of Directors, I am pleased to present the Financial Statements for the year ended October 31, 1970 and to review the growth and progress of the Company during the period.

The past year has been one of continued financial growth and of expansion of the Company's Canadian and International operations. Operating revenue increased by 30.6% to $33,258,870 and net income by 13% to $1,329,927. Earnings per average common share outstanding were 53¢ compared to 48¢ in 1969. Cash flow generated from operations in the 1970 financial year reached $4,620,120 or $1.91 per common share, compared to $3,876,526 or $1.65 per common share in 1969. These gratifying results have been achieved by the operating management and staff of the Company's Inns despite the decline in economic activity which prevailed in Canada throughout most of the year.

In recent months there have been indications of general improvement in the business climate. Interest rates have declined significantly from the unprecedented highs established during 1970 and the rate of inflation experienced during the past several years appears to be moderating. Your Company is continuing to reinforce its strategic position to take advantage of the strong growth trend in travel. I am confident of our ability to achieve new records in both sales and earnings in 1971.





The Company is now operating 30 Inns in Canada, The United Kingdom, the Caribbean and the United States with a total of 4,767 rooms. Recent openings of new Inns include the 225-room Holiday Inn of Plymouth, England, situated in a park-like setting overlooking "The Hoe" and Plymouth Harbour. The new 126-room Grenada, W.I. Holiday Inn and the 120-room St. Lucia, W.I. Holiday Inn are now open, bringing to 4 the number of Inns operated by the Company in the Caribbean.

The 157-room Sudbury Holiday Inn was opened during the month of September and has achieved a high degree of acceptance by the public. In December, the 252-room Toronto-Yorkdale Holiday Inn was opened. The Company now has 4 Inns operating in Metropolitan Toronto with a total of 948 rooms, 2 additional Inns are under construction, and when completed, a further 1,112 rooms will be added to our Toronto operations. We expect that by the end of the current year your Company will have approximately 6,000 rooms in operation and another 2,500 rooms, or more, under construction.

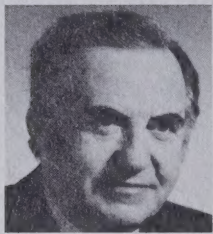
You have already learned of the transaction arranged with Holiday Inns, Inc., whereby their option on 50.075% of the common stock will be eliminated. This is the most important event in the recent life of the Company. The principal effects are to substantially increase working capital, thereby providing funds for expansion, and to retain continued Canadian control. This is of significance to a hotel company operating in Canada, the United Kingdom and the West Indies. At the same time your Company retains the advantage of a close association with Holiday Inns, Inc., and access to the expertise they have gained as the world's largest hoteliers. Following the completion of the transaction, Holiday Inns, Inc., will become the Company's largest shareholder with 31% of the issued common shares.

I wish to express the appreciation of all concerned to the many men and women who serve the Company and its guests, without whose efforts and patronage these results could not have been achieved.

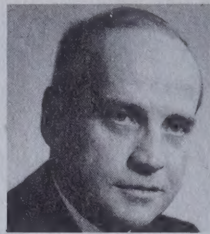
CHAIRMAN OF THE BOARD
AND PRESIDENT

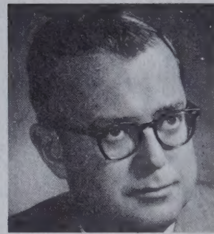
February 1971.

DIRECTORS

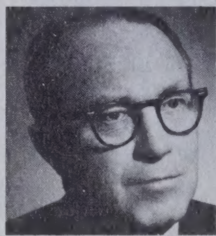

David Rubinoff
Chairman of the Board
President and
Director

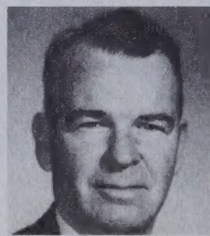

Ernest B. Fletcher
Executive Vice President
and General Manager—
Director

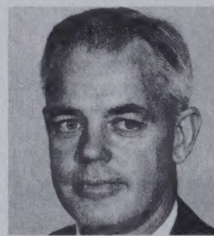

Albert E. Shepherd, Q.C.
Senior Vice President
and Director


David B. Weldon
Director


Richard W. Yantis
Director


Frederick W. P. Jones
Director


Ludwick M. Clymer
Director


Frank W. Adams
Director

Frank W. Adams
President, Commercial Services
Division, Holiday Inns, Inc.
MEMPHIS, Tennessee

David Rubinoff*
Chairman of the Board and
President,
Commonwealth Holiday Inns
of Canada Limited
LONDON, Ontario

Ludwick M. Clymer
Executive Vice President
Holiday Inns, Inc.
MEMPHIS, Tennessee

Albert E. Shepherd*†
Senior Vice President,
Commonwealth Holiday Inns
of Canada Limited
Barrister and Solicitor
Partner of Shepherd, McKenzie,
Plaxton, Little & Jenkins
LONDON, Ontario

Ernest B. Fletcher*
Executive Vice President and
General Manager,
Commonwealth Holiday Inns
of Canada Limited
LONDON, Ontario

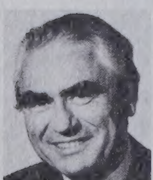
David B. Weldon*†
President,
Midland-Osler Securities Limited
LONDON, Ontario

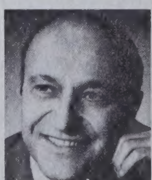
*Member of the Executive Committee
†Member of the Audit Committee

Frederick W. P. Jones*†
Professor,
School of Business
Administration
University of Western Ontario
LONDON, Ontario

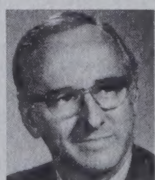
Richard W. Yantis
Director,
Avco Corporation New York
Avco Delta Corporation
New York, Avco Delta
Corporation Canada Limited

OTHER OFFICERS AND EXECUTIVES

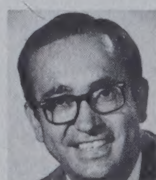

Philip Eprile
President,
Associated
Innkeepers Supply
Company


Edward C. Campbell
Senior Vice
President,
Operations


Ronald M. Thomas
Senior Vice
President, Finance
and Corporate
Planning


Andre R. Pettigrew
Vice President and
Treasurer


Robert A. Rubinoff
Vice President,
Director of
European
Operations


Raymond R. Yelle
Vice President—
Caribbean Finance
and Development


Charles H. King
Secretary


W. Harvey Gleason
Controller


Jeanette M. Stevens
Assistant Secretary


Charles A. Cline
Assistant Vice
President, Director
of Personnel


Hans Demuth
Assistant Vice
President, Director
of Food and
Beverage

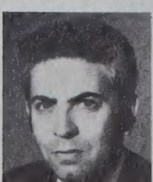

James A. Havers
Assistant Vice
President, District
Director


John C. Logan
Assistant Vice
President, Director
of Projects
Development


Willis G. McNeilly
Assistant Vice
President, Director
of Marketing


John B. Pleasence
Assistant Vice
President, District
Director

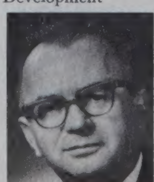

Theodore Smits
Assistant Vice
President, Director
of Construction and
Maintenance


Philip M. Barnett
Vice President and
General Manager,
Associated
Innkeepers Supply
Company


John S. Harrington
Director, Contract
Sales, Associated
Innkeepers Supply
Company

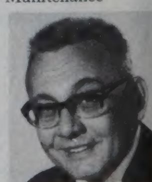

Robert J. Adley
Director of
Marketing—Europe


John C. Peskett
Director of
Marketing—
Caribbean


Lewis Blum
District Director


Rene Murray
District Director


Claude Lefebvre
Manager,
Caribbean
Operations


Frank E. Gorman
General Manager,
Commonwealth
Holiday Estates

AUDITORS' REPORT

To the Shareholders of
Commonwealth Holiday Inns of Canada Limited.

WE HAVE examined the consolidated balance sheet of Commonwealth Holiday Inns of Canada Limited and its subsidiaries as at October 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.
January 12, 1971.

CLARKSON, GORDON & CO.
Chartered Accountants.

COMMONWEALTH HOLIDAY INNS OF CANADA LIMITED

and its subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended October 31, 1970

(with comparative amounts for 1969)

	1970	1969
Sales	$33,258,870	$25,431,843
Earnings from operations before charges as set out below	$ 9,321,115	$ 7,240,624
Rent—leased Inns	2,653,631	1,952,385
Depreciation—*note 2*	1,408,687	1,058,918
Amortization of deferred expenses—*note 4*	441,694	319,715
Interest on long term debt	2,012,176	1,400,009
	6,516,188	4,731,027
Earnings for year before taxes on income	2,804,927	2,509,597
Taxes on income—deferred—*note 7*	1,475,000	1,333,000
Consolidated net earnings for year	$ 1,329,927	$ 1,176,597

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended October 31, 1970

(with comparative amounts for 1969)

	1970	1969
Balance beginning of year	$2,114,511	$1,061,981
Add consolidated net earnings for year	1,329,927	1,176,597
	3,444,438	2,238,578
Deduct:		
Dividends paid on preference shares	53,056	54,437
Expenses in connection with the issue of common shares (net of income taxes)		69,630
	53,056	124,067
Balance end of year	$3,391,382	$2,114,511

(*See accompanying notes to the consolidated financial statements*)

COMMONWEALTH HOLIDAY INNS OF CANADA LIMITED
and its subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended October 31, 1970

(with comparative amounts for 1969)

	1970	1969
Working capital beginning of year	$ 183,514	$ 592,003
Source of funds:		
Operations—		
Consisting of:		
Consolidated net earnings for year	1,329,927	1,176,597
Add or (deduct)—		
Deferred income taxes	1,475,000	1,333,000
Depreciation and amortization	1,850,381	1,378,633
Other non-cash items	(35,188)	(11,704)
	4,620,120	3,876,526
Mortgages and other long term loans	10,844,110	8,299,602
Sale of shares	5,513	3,798,462
Sale of fixed assets (in 1969 net of mortgages assumed on sale)	66,236	930,104
	15,535,979	16,904,694
Application of funds:		
Purchase of fixed assets	10,572,774	10,875,494
Investments—*note 3*	1,275,206	
Deferred expenses	1,883,507	1,029,929
Franchises	114,400	170,188
Reduction of long term debt	1,104,771	5,070,505
Dividends	53,056	54,437
Expenses of share issue		112,630
	15,003,714	17,313,183
Increase (decrease) in working capital	532,265	(408,489)
Working capital end of year	$ 715,779	$ 183,514

(*See accompanying notes to the consolidated financial statements*)

COMMONWEALTH HOLID

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ASSETS

	1970	1969
Current:		
Cash	$ 2,123,587	$ 880,734
Accounts receivable	2,134,917	1,964,747
Inventories—at the lower of cost or net realizable value	598,965	536,675
Prepaid expenses	538,292	402,592
	5,395,761	3,784,748
Fixed—at cost—*notes 2 and 13:*		
Land	2,237,756	2,292,239
Buildings and leasehold improvements	19,070,739	17,254,512
Furniture and equipment, roadways, swimming pools, etc.	11,857,873	9,838,339
	33,166,368	29,385,090
Less accumulated depreciation	4,417,756	3,010,886
	28,748,612	26,374,204
Inns under construction—at cost (including cost of land of $1,737,061 in 1970 and $1,403,011 in 1969)	9,855,914	3,132,472
Investments—at cost—*note 3*	1,275,206	
Deferred expenses—*note 4*	3,410,594	1,968,780
Franchises—Holiday Inns, Inc.—at cost	885,045	770,645
	$49,571,132	$36,030,849

On behalf of the Board

E. B. Fletcher, Director

Albert E. Shepherd, Director

(*See accompanying notes to the consolidated financial statements*)

NNS OF CANADA LIMITED
e laws of Ontario)
osidiaries

ALANCE SHEET

1, 1970

iounts for 1969)

LIABILITIES

		1970	1969
Current:			
Accounts payable and accrued charges		$ 3,309,700	$ 2,150,444
Taxes payable		149,616	223,617
Long term debt payable within one year		1,220,666	1,227,173
		4,679,982	3,601,234
Long term debt—*note 5*		32,332,548	22,593,209
Deferred profit on sale of fixed assets—*note 6*		482,745	517,933
Deferred income taxes—*note 7*		4,010,000	2,535,000
Shareholders' equity:			
Capital—*note 8*—			
Authorized:			
4,000 6½% cumulative redeemable convertible sinking fund preference shares with a par value of $200 each (4,150 shares in 1969)	800,000		
7,025,000 common shares of no par value (7,010,000 shares in 1969)			
Issued and fully paid:			
4,000 preference shares (4,150 shares in 1969)		800,000	830,000
2,427,013 common shares (2,411,488 shares in 1969)		3,874,475	3,838,962
		4,674,475	4,668,962
Consolidated retained earnings—*note 9*		3,391,382	2,114,511
		8,065,857	6,783,473
		$49,571,132	$36,030,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1970

1. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Associated Innkeepers Supplies Limited, Allied Innkeepers (Bermuda) Limited, Commonwealth Holiday Inn (Alberta) Limited and Philip Eprile Associates Limited. These latter two companies were incorporated during the year ended October 31, 1970.

The accounts of certain branches of the company are carried in other than Canadian currency. These are included in the accompanying consolidated financial statements in Canadian dollars on the following basis:

Current assets and liabilities	—at the rate of exchange in effect as at the balance sheet date
Non-current assets and non-current liabilities	—at the rates of exchange generally in effect when assets were acquired and liability incurred
Sales and expenses	—at the average rate of exchange for the year

2. Fixed assets

A major portion of the real estate and furniture and equipment is pledged to secure mortgages and other long term debt.

For accounting purposes depreciation is computed on a straight-line basis at the following annual rates:

Building and leasehold improvements	*2½%
Paving	4%
Furniture and equipment	9%
Swimming pools	10%

*A higher rate is applied to leasehold improvements if, at the time of the expenditure, the remaining term of the lease plus one renewal period is less than 40 years.

3. Investments

During the year ended October 31, 1970, the company made certain advances in respect of which it has received or will receive shares and debentures under agreements relating to the construction of two Inns to be leased by the company upon their completion. Particulars are as follows:

Shares (re Guadeloupe Inn)	$ 150,706
Debentures and advances (re St. Lucia Inn)	1,124,500
	$1,275,206

4. Deferred expenses

These consist of:

	Costs and expenses incurred to date	Amortization to date	Unamortized balance October 31, 1970
Deferred opening expenses	$3,295,003	$ 852,218	$2,442,785
Deferred cost of alterations and renovations	781,540	148,828	632,712
Deferred cost of borrowing	562,221	227,124	335,097
	$4,638,764	$1,228,170	$3,410,594

The company follows the practice of deferring opening expenses, costs of major alteration and renovation programs and costs of borrowing and of amortizing such costs and expenses as follows:

Opening expenses	—During the first sixty months commencing with the month following the opening of each Inn.
Cost of alterations and renovations	—During the first sixty months commencing with the second month following completion of the program for each Inn.
Cost of borrowing	—During the term of the respective borrowings.

5. Long term debt

Long term debt outstanding at October 31, 1970 consists of:

	Payable within one year	Amount
(a) Real estate mortgages payable: 8½%—12½% first and second mortgages due on varying dates from 1972 to 1989	$ 492,197	*$18,233,055
*Payable in currencies other than Canadian $1,063,432—U.S. $ 996,801; $3,000,000—D.M. 10,737,294		
(b) Chattel mortgages payable: 11%—12% chattel mortgages due on varying dates from 1971 to 1973 and sundry lien notes due in varying amounts to 1977	428,631	1,363,156
(c) Sinking fund debentures payable:		
7½% Senior debentures maturing December 1, 1979 (sinking fund payment of $75.000 in 1971 and 1972, $100,000 in each of the years 1973 to 1979 and $50,000 on maturity)	75,000	900,000
7% Series "A" subordinated debentures maturing June 30, 1974 (sinking fund payments of $200,000 in each of the years 1971 to 1973 and $200,000 on maturity)	200,000	800,000
6% Series "B" subordinated debentures maturing June 30, 1979 (sinking fund payments of $40,000 in each of the years 1975 to 1978 and $40,000 on maturity)		200,000
	275,000	1,900,000
(d) Secured notes payable: 6⅞% secured notes maturing June 30, 1991, repayable at an amount equal to 5.03234% of the highest aggregate principal amount of notes issued commencing December 31, 1974 (secured by a first mortgage and first floating charge on certain property) ($1,650,000 U.S.)		1,728,633
(e) Due to bankers:		
Repayable from proceeds of a committed mortgage loan (amount payable within one year relates to replacement financing) (secured)	24,838	2,652,000
Repayable under a plan of financing involving the sale and leaseback of a particular Inn (secured) ($1,546,949 U.S.)		1,576,370
Term bank loan due January 1972		600,000
Term bank loan due November 1972 ($5,140,035 U.S.)		5,500,000
	24,838	10,328,370
	$1,220,666	33,553,214
Less payable within one year		1,220,666
		$32,332,548

Instalments of long term debt payable each year for the next five years are:

1971	— $1,220,666	1974	— $3,977,800
1972	— 2,448,600	1975	— 3,285,200
1973	— 7,838,500		

6. Deferred profit on sale of fixed assets

This consists of the unamortized balance of a deferred gain which occurred on the sale and leaseback of one of the company's Inns during 1969. This amount is being transferred to income each year on a basis which will amortize the total gain over the term of the applicable lease. The transfer to income in 1970 amounted to $35,188 ($10,266 in 1969).

7. Deferred income taxes

The income tax provision for the company has been based on income for the year as reported in its accounts. As the company claims for income tax purposes deferred expenses as incurred and capital cost allowances in excess of depreciation, no taxes on income for the year are currently payable and accordingly, the entire provision has been deferred.

8. Capital

The 4,000 authorized and issued preference shares may be purchased for cancellation at any time if obtainable or are redeemable on or after May 15, 1976 at $214 per share until May 15, 1983 and $207 per share thereafter, provided that the tangible junior capital (as defined in the trust indentures) immediately after such redemption is not less than $1,750,000. Prior to May 15, 1976, preference shares may be redeemed at $214 per share provided the book value of the common shares at the time of redemption is not less than 250% of the par value of the preference shares. As long as any preference shares are outstanding, the company is required in each year commencing May 15, 1971 to set aside in a sinking fund to be used for the redemption of the preference shares an amount equal to 5% of the par value of the issued preference shares.

During the year ended October 31, 1970, the company issued 525 common shares for $5,513 cash under the employee share option plan and 150 preference shares were converted into 15,000 common shares under conversion privileges attaching to the preference shares.

As at October 31, 1970, additional common shares are reserved as follows:

(a) For issuance at $2 per share under share purchase warrants expiring June 30, 1978 issued to holders of the 7½% senior debentures	250,000
(b) For issuance to employees at $10.50 per share	18,050
(c) For issuance to Holiday Inns, Inc. at $3 U.S. per share under share purchase warrants exercisable on a cumulative basis as to 813,734 shares during any twelve month period commencing November 1, 1969 and expiring November 1, 1978	*3,254,937
(d) For issuance to holders of secured notes at $8 per share under share purchase warrants exercisable from November 1, 1972 and expiring November 1, 1984	** 41,250
	3,564,237

Note: In addition to the common shares reserved for above, an additional 400,000 common shares may be issued under conversion privileges attaching to the preference shares.

*Under the provisions of these warrants, if prior to November 1, 1978, the company should have common shares outstanding or reserved for the exercise of warrants or options granted or for conversion privileges in the aggregate greater than 6,500,000 shares, then the company is required to grant to this warrant holder additional warrants to purchase common shares without further consideration so that the warrant holder will hold or have exercised warrants for the purchase of common shares equal to 50.075 per cent of the total common shares outstanding or reserved. The warrant holder concerned has waived its right to receive warrants for the purchase of 50,026 additional common shares without consideration to which it would otherwise become entitled if the company should issue the additional share purchase warrants referred to in the following paragraph and has agreed to accept instead warrants for the purchase of 50,026 common shares at $8 per common share.

**Under the provisions of an agreement which the company has executed for the borrowing of $8,500,000 U.S., the company has agreed to issue to the lenders at the time funds are actually received, additional warrants expiring November 1, 1984 for the purchase of up to 200,000 common shares at $8 per share. During the year ended October 31, 1970, the company borrowed $825,000 U.S. ($1,650,000 to date) under this agreement and thereupon issued 20,625 warrants (41,250 to date). The remaining 158,750 warrants may be issued from time to time as the balance of the funds is received.

9. Retained earnings

The company has covenanted in the trust indentures securing its sinking fund debentures not to declare any dividends on any of its shares (other than stock dividends) and not to redeem or retire any class of its capital stock or to make any other distribution to shareholders unless after giving effect to such action the sum of the amounts declared as dividends subsequent to March 31, 1966 plus the amounts applied by the company and its subsidiaries subsequent to March 31, 1966 to redeem shares (after crediting against such amount the proceeds of any sale of shares made substantially concurrently therewith) will not be in excess of consolidated net earnings (as defined in the trust indentures) of the company and its subsidiaries for the period from March 31, 1966 to the date of such payment. Also, the company may not declare any dividends if the tangible junior capital (as defined in the trust indentures) is less than $1,750,000.

As at October 31, 1970, the consolidated net earnings (as defined) from March 31, 1966 exceeded amounts declared as dividends since that date and the tangible junior capital (as defined) exceeded $1,750,000.

10. Commitments

The cost of the building program to which the company is currently committed has been estimated at $14,400,000. In addition, the company has a commitment to complete construction of an Inn at a cost of $1,740,000 under a plan of financing involving the sale and leaseback of the Inn upon its completion.

This program will be financed from long term loans already arranged and from internal resources.

11. Long term leases and fees

The company has entered into agreements to lease properties which are operated as Inns for periods varying from 8 to 27 years at total minimum rentals for the remaining terms of the leases of approximately $73,000,000. Total minimum fixed rentals per year as at October 31, 1970 approximate $2,900,000. In the case of certain leases, increased rentals may be payable if Inn revenues exceed specified amounts. Certain leases provide the company with options to purchase the leased properties. In addition, the company has entered into agreements to lease properties generally for 25 year periods to be operated as Inns in the future at annual minimum rentals of approximately $2,400,000.

Under its agreements with Holiday Inns, Inc., the company is required to pay royalties and other fees which currently amount to approximately $720,000 annually. It has also entered into miscellaneous equipment leases which require annual rental payments of approximately $352,000.

Under the terms of the agreement relating to the 6⅞% secured notes, the company has agreed not to permit minimum annual lease obligations on real property located in Canada and continental United States to exceed 12% of the net book value of the company's fixed assets located within these two countries. As at October 31, 1970, these minimum annual lease obligations were less than 12% of the net book value of the applicable fixed assets.

12. Statutory information

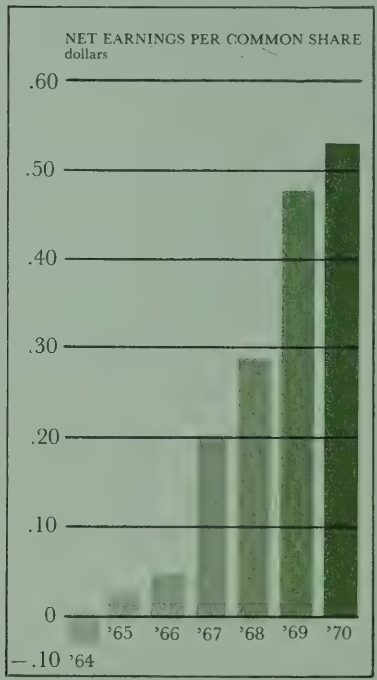
The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers amounted to $297,000 for the year ended October 31, 1970 ($232,000 in 1969). This remuneration includes directors' fees of $5,926 for 1970 and $2,148 for 1969.

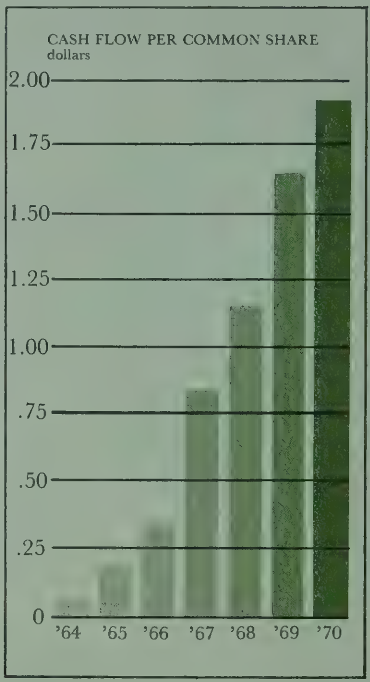
The liability in respect of past service pension costs not provided for in the accompanying consolidated financial statements as at October 31, 1970 amounts to $586,789. This amount is to be paid in annual instalments of $31,576 over the next nineteen years. During 1970 past service pension costs totalling $13,155 were charged to expense. All other pension costs are provided and paid for in the year in which such costs are incurred.

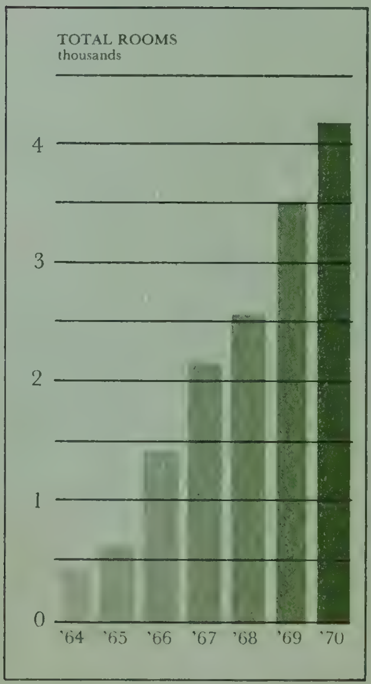
13. Appraisal value of real estate

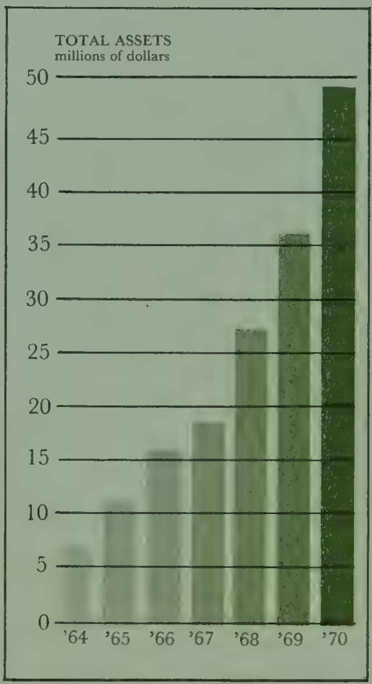
Land and buildings included in fixed assets in the accompanying consolidated balance sheet at a net book value of $19,515,363 have an estimated appraisal value, on a net replacement cost basis of $28,700,000 based on an appraisal by Montreal Trust Company during 1969 with subsequent additions at cost. The above amounts do not take into account values relating to leased properties, furnishings or values attributable to the Holiday Inn franchises.

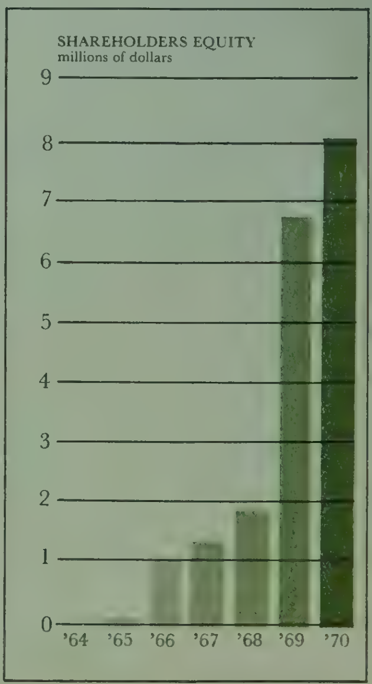
SEVEN YEARS OF GROWTH







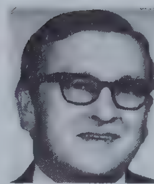




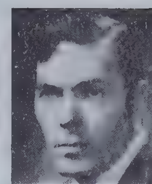
INNKEEPERS


John Peters
Barrie

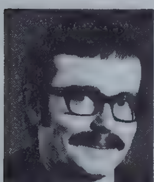

Gordon Langford
Brantford


John Brezsnyak
Chatham


Earland Wilson
Edmonton


N. Thompson-Wood
Hamilton


Bernhard Kainer
Hespeler


Terrance O'Brien
Huntsville


Edward Conrad
Kenora


G. Leyendeckers
Kingston


Douglas Escott
Kitchener


Isaac Siskind
London Downtown


Roger Croxall
London South


Irvine Phillips
Oakville


Peter Vandenberg
Oshawa


Erwin Rieck
Ottawa

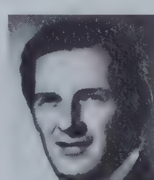

Spencer Brown
Peterborough


Harold Levin
St. Catharines


Derek Toms
Sudbury

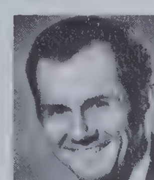

Anthony Miele
Thunder Bay


Joseph Slomka
Toronto Don Valley


Març Hamel
Toronto East


Robert Becker
Toronto West

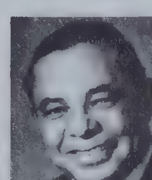

Rudy Berger
Toronto Yorkdale


Bert Bornhoeft
Windsor


John Terrayh
Pontiac


Donald MacAfee
Port Huron


Ed Schwannecke
Antigua


Cyril Clarke
Barbados


Carsten Flindt
Grenada


Alfred Taylor
St. Lucia


Joseph Whitfield
Plymouth, England


Gordon MacKay
Innkeeper—
Special Projects


Mrs. Monica
Andersen
Innkeeper at Large


William Pump
Innkeeper at Large

COMMONWEALTH HOLIDAY INNS OF CANADA LIMITED

and its subsidiaries

SEVEN YEAR FINANCIAL REVIEW

	1970	1969
RESULTS FOR THE YEAR		
Sales	$33,258,870	$25,431,843
Earnings Before Taxes on Income	2,804,927	2,509,597
Provision for Income Taxes	1,475,000	1,333,000
Net Earnings for the Year*	1,276,871	1,122,160
Per Common Share*	.53	.4
Cash Flow from Operations**	4,620,120	3,876,526
Per Common Share	1.91	1.6
Depreciation and Amortization	1,850,381	1,378,633
Additions to Plant and Equipment	10,572,774	10,875,494
YEAR END POSITION		
Working Capital	$ 715,779	$ 183,514
Fixed Assets at Cost***	43,022,282	32,517,562
Total Assets	49,571,132	36,030,849
Long Term Debt	32,332,548	22,593,209
Shareholders' Equity	8,065,857	6,783,473
GENERAL STATISTICS		
Preference Shares Outstanding	4,000	4,150
Common Shares Outstanding	2,427,013	2,411,488
Inns in Operation	27	23
Rooms in Operation	4,164	3,499

*After dividends on preference shares disregarding unexercised options and conversions, and calculated on average common shares outstanding during the period.

**Cash flow consists of net earnings before dividends on preference shares plus non-cash charges for depreciation, amortization and deferred taxes.

***Includes construction in progress.

NOTE: 1969 amounts shown under Year End Position and General Statistics are after giving effect to issuance and sale to underwriters of 350,000 common shares on December 16, 1968.

1968	1967	1966	1965	1964
$17,654,355	$12,453,855	$ 7,062,421	$ 3,567,315	$ 2,650,583
1,336,659	917,178	226,704	105,731	(113,057)
695,000	481,300	122,000	55,000	(56,900)
586,409	405,997	112,243	50,731	(56,157)
.29	.20	.05	.03	—
2,374,762	1,726,137	691,114	383,797	145,634
1.16	.84	.34	.19	.07
1,038,103	777,813	477,871	277,066	270,791
7,372,722	3,224,369	5,053,238	3,081,018	550,000
$ 592,003	($ 963,751)	($ 421,139)	($ 1,447,018)	($ 2,052,035)
24,745,147	17,273,501	13,967,198	8,965,283	6,009,336
27,051,643	17,856,057	15,596,668	10,501,956	6,729,488
21,545,396	13,775,714	12,113,550	7,462,051	3,895,668
1,932,481	1,372,144	1,015,377	52,634	1,903
4,250	4,250	4,250	—	—
2,050,063	2,050,000	2,050,000	2,000,000	2,000,000
17	14	10	5	3
2,558	2,166	1,441	639	440

Holiday Inns

The World's Innkeeper

THE worldwide Holiday Inn system, which had its beginning in 1952, has grown to over 1,275 inns with more than 180,000 guest rooms. The philosophy of the founders, Kemmons Wilson and Wallace Johnson "to bring food and lodging within the price range a man and his family can manage and to provide a standard he can rely on" has been largely responsible for this phenomenal growth. The rate of expansion has been accelerating annually and presently it is projected that 3,000 inns will be in operation around the world by the year 1980.

Many of the innovations and standards established and pioneered by Holiday Inns have caused a virtual revolution in the travel industry and have earned for them the designation of "The World's Innkeeper". As a member of the expanding international family of Holiday Inns, our Company has the benefit of participating with other members in mass advertising programmes and of an instant worldwide communication, referral and reservations system. Holiday Inns, Inc., and those associated with them are dedicated through common purpose to continual improvement of facilities and service in recognition of changing environments and of the demands of ever-growing mass travel and tourism. A measure of the success of Holiday Inns is that the system accommodates over 200,000 guests each night and daily the computerized Holidex reservations system—with each Holiday Inn equipped with a reservations machine and with sales offices in major cities—handles over 160,000 advance bookings.

Commonwealth Holiday Inns of Canada is proud of the role it is permitted to play in the expansion of Holiday Inns around the globe, and is grateful for the opportunity of drawing on the vast fund of experience and expertise developed by Holiday Inns in the hospitality industry. This has contributed greatly to our rapid growth and financial success—and allows us to plan for the future with confidence.

INNS IN OPERATION

CANADA

Ontario

Thunder Bay
Kenora
Windsor
Chatham
London South
London Downtown
Kitchener
Hespeler-Galt
Brantford
Hamilton
St. Catharines
Oakville
Toronto Don Valley
Toronto Yorkdale
Toronto West
Toronto East
Barrie
Huntsville
Sudbury
Peterborough
Kingston
Ottawa

Alberta

Edmonton

MICHIGAN

Pontiac
Port Huron

CARIBBEAN

Barbados
St. Lucia
Antigua
Grenada

EUROPE

United Kingdom

Plymouth

INNS UNDER CONSTRUCTION OR PLANNED

CANADA

Ontario

Toronto Civic Square**
Toronto Airport*
Burlington**
Oshawa*
Belleville
Ottawa Downtown*
Sarnia*
Windsor #2

Quebec

Longueuil**

Manitoba

Winnipeg Downtown

Alberta

Lethbridge**

British Columbia

Vancouver
Whistler Mountain
Victoria**

CARIBBEAN

Trinidad-Tobago**
Barbados Seawell
Martinique
St. Kitts*
St. Croix
Guadeloupe

EUROPE

United Kingdom

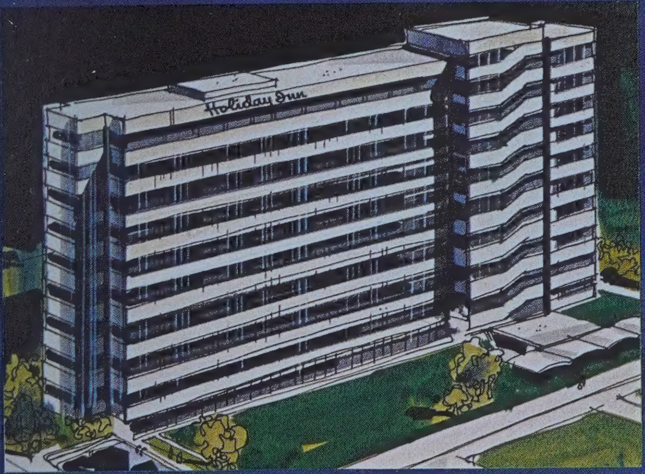
London (Marble Arch)**
London (Swiss Cottage)**
Bristol
Slough
Newcastle

Portugal

Madeira**

*Opening 1971
**Opening 1972-73

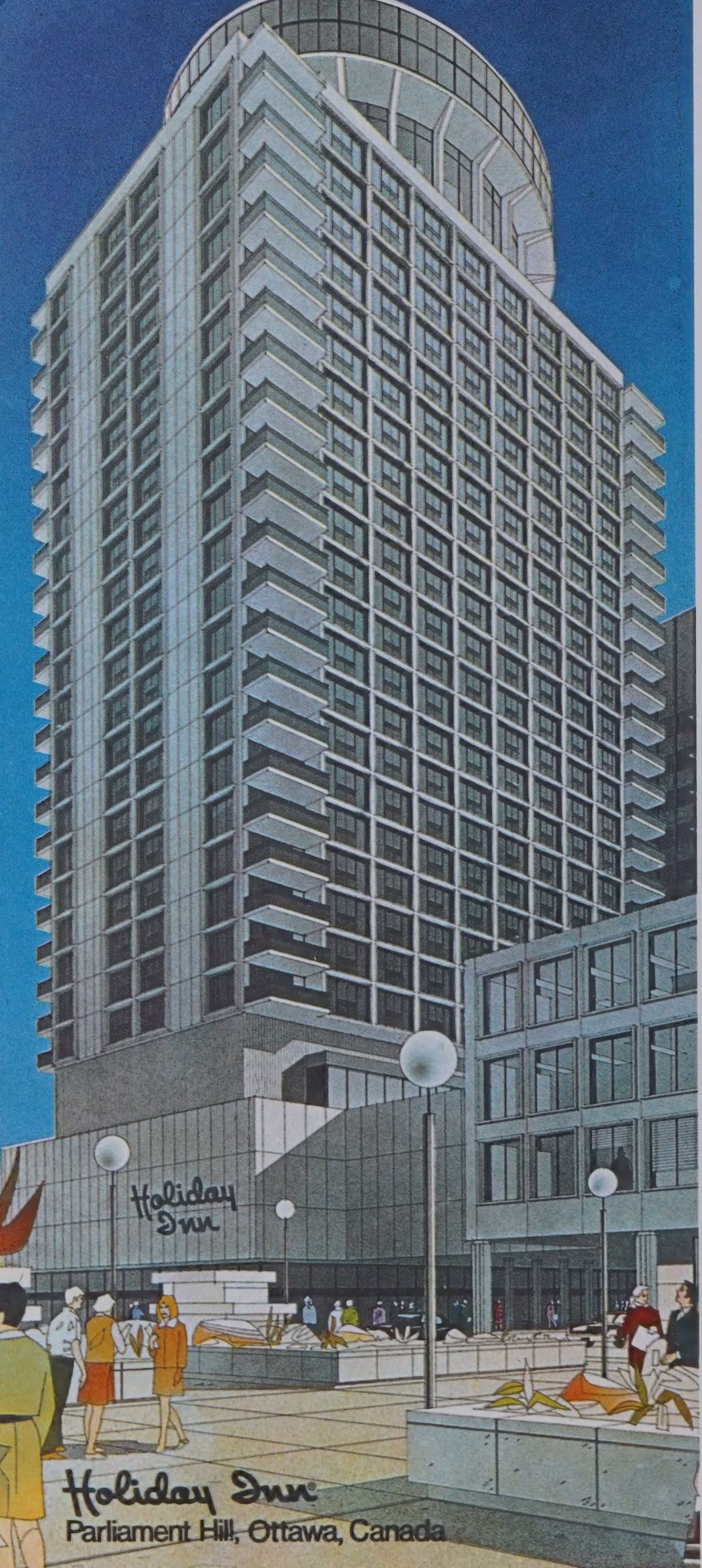
Commonwealth's United Kingdom Holiday Inns



Bristol—Planned

London (Marble Arch)—Under construction

Plymouth—Opened January 1971



WE'RE BUILDING IN CANADA'S CAPITAL . . . AND AROUND THE WORLD. Our dramatic, new Holiday Inn will form part of the second phase of Ottawa's Place de Ville complex, to be completed in the fall of 1971. Along with our existing Inn, which was opened in 1967, our new Inn will make Place de Ville Ottawa's foremost hotel and convention centre. The new Inn, comprising 504 rooms, will feature such highlights as a multi-level revolving supper club and cocktail bar at penthouse level; executive suites with outside loggias commanding a panoramic view of the Parliament Buildings and the Gatineau Hills, and special suites to accommodate dignitaries. The Inn will be connected with the Place de Ville complex by a landscaped plaza and a sub-surface, climate-controlled concourse with a wide variety of shopping facilities and underground parking.

Holiday Inn Antigua

Holiday Inn BARBADOS

Holiday Inn Grenada

Holiday Inn St. Lucia

IN THE CARIBBEAN, the Company now operates four Holiday Inns which have been located to serve the growing business and tourist needs of this important travel area. Construction and planning are continuing on future Inns which will provide the finest of facilities and service, and which will complement those now existing in the Caribbean and add to the international system of Holiday Inns around the world.

Holiday Inn
THE WORLD'S INNKEEPER
TRADE MARK REGISTERED